

## COMPANY UPDATE

## KE Holdings Inc (2423 HK)

2Q23 Preview: Solid Top-Line Growth; Moderate Growth In 3Q23 On Soft Market

Beike will report its 2Q23 results in late-Aug 23. We expect Beike's 2Q23 results to be solid and forecast revenue to grow 36% yoy to Rmb18.7b. Non-GAAP net profit should improve to Rmb1.6b (from a loss of Rmb622m in 2Q22) due to increased operational efficiency, translating to non-GAAP net margin of 8.6% in 2Q23 (vs -4.5% in 2Q22). We think Beike is a key proxy to the property market recovery. Maintain BUY with a lower target price of HK\$63.00 (US\$22.00).

## WHAT'S NEW

- Solid 2Q23 top-line growth momentum albeit moderated from 1Q23.** We forecast KE Holdings Inc's (Beike) 2Q23 revenue to grow 36% yoy to Rmb18.7b (1Q23: 62% yoy). Existing home transaction revenue is projected to increase 23% yoy (1Q23: 49% yoy), and gross transaction value (GTV) should soar 32% yoy, served by connected agents on the Beike platform, mainly supported by the 24% yoy growth in Lianjia GTV. New home transaction service revenue is estimated to ramp up by 18% yoy to Rmb7.8b, bolstered by a 17% yoy growth in GTV of new home transaction services. We estimate a slightly lower new home take rate of 2.94% in 2Q23 (1Q23: 2.99%). Home renovation & furnishing and emerging & other services revenue is expected to reach Rmb2.4b and Rmb1.4b respectively. In 2Q23, the home renovation and furnishing revenue is guided to contribute 20-25% of total revenue vs 7% in 1Q23, primarily anchored by resilient contract performance in 1Q23.
- Lacklustre July sentiment to sustain in 3Q23.** Existing home sales market saw sequential decline since April after the strong record in March. Existing home sales transaction volume in 18 cities grew 49% yoy in 2Q23 (on a low base), but dropped mom by -18% /-11% /-10% in Apr/May/Jun 23. Average price for existing homes declined yoy, mainly due to the drop in Tier 2-3 cities, according to NBS. For 3Q23, with the weak transaction volume persisting in July, we forecast existing home GTV growth of 11% yoy, followed by 28% yoy in 4Q23.
- Enhanced "One Body, Three Wings" strategy.** On 12 Jul 23, Beike released an open letter, announcing the strategic upgrade of "One Body, Three Wings" and organisational adjustments. Beike will establish four business lines along with nine functional lines: Finance, Research, Strategy, Quality, Human Resources, User Experience, Compliance, Public Relations and Collaboration. The four business lines include: a) brokerage, based on Agent Cooperation Network (ACN), which aims to improve customer experience and promote a healthy industry ecosystem, b) home decoration, which aims to transform the home renovation industry and enhance customer experience, c) rental services, which aims to make renting a way of life and property management a long-term profession, d) quality home, which aims to create excellent products and services and promote upgrading of housing supply.

## KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	80,752	60,669	79,370	88,039	95,876
EBITDA	(126)	597	9,815	10,090	12,174
Operating profit	(1,497)	(943)	8,095	8,202	10,131
Net profit (rep./act.)	(666)	(1,762)	7,479	7,124	9,120
Net profit (adj.)	2,153	2,478	10,432	10,290	12,438
EPS (Fen)	60.3	69.2	285.7	279.0	333.9
PE (x)	69.9	60.9	14.8	15.1	12.6
P/B (x)	2.2	2.2	1.9	1.7	1.5
EV/EBITDA (x)	n.m.	221.5	13.5	13.1	10.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(0.8)	(2.9)	9.4	7.9	9.1
Net debt/(cash) to equity (%)	(39.5)	(36.2)	(32.6)	(42.0)	(48.7)
ROE (%)	n.a.	n.a.	10.1	8.4	9.6
Consensus net profit	-	-	7,419	8,158	9,258
UOBKH/Consensus (x)	-	-	1.41	1.26	1.34

Source: KE Holdings Inc, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative EV/EBITDA reflected as "n.m."

## BUY

(Maintained)

Share Price	HK\$44.80
Target Price	HK\$63.00
Upside	+37.4%
(Previous TP)	HK\$70.00)

## COMPANY DESCRIPTION

KE Holdings Inc (Beike) operates China's largest online+offline integrated platform for housing transactions brokerage services.

## STOCK DATA

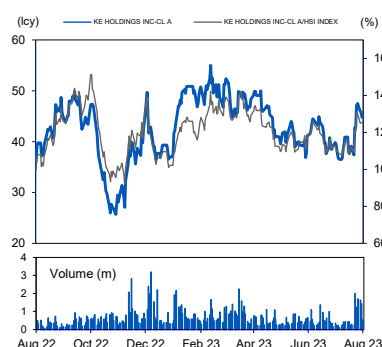
GICS sector	Real Estate
Bloomberg ticker:	2423 HK
Shares issued (m):	3,592.4
Market cap (HK\$m):	171,793.3
Market cap (US\$m):	22,043.4
3-mth avg daily t'over (US\$m):	2.7
Price Performance (%)	

52-week high/low HK\$55.00/HK\$25.70

1mth	3mth	6mth	1yr	YTD
17.9	11.8	(6.8)	24.8	23.9

Major Shareholders	%
Bank of New York Mellon Corp	55.4
Propitious Global	23.7
BlackRock Inc	4.8
FY23 NAV/Share (Rmb)	22.42
FY23 Net Cash/Share (Rmb)	7.30

## PRICE CHART



Source: Bloomberg

## ANALYST(S)

**Julia Pan Meng Yao**  
+8621 5404 7225 ext 808  
juliapan@uobkayhian.com

**Soong Ming San**  
+603 21471912  
mingsan@uobkayhian.com

## STOCK IMPACT

- Margin overview.** 2Q23 non-GAAP operating income turned positive to Rmb1.5b with non-GAAP operating margin expanding by 13.2ppt yoy to 8.2%, mainly driven by a relatively higher gross profit margin which grew by 6.7ppt yoy. We expect operating expenses to inch down by 2% yoy mainly due to improved operating efficiency from AI adoption. For 2023, we estimate gross margin to improve 6.5ppt yoy to 29% and net margin of 13%.
- Stable 1H23 tempered by gradual slowdown from April to June.** According to NBS, in 1H23, Gross Floor Area (GFA) sold and sales amount dropped by 5.3% yoy and edged up 1% yoy to 59.5m sqm and 63.1m sqm respectively. Among them, GFA of residential housing sold and sales amount dipped 2.8% yoy and rose 3.7% yoy respectively. In June, China's residential homes declined 18% yoy and 19% yoy in terms of GFA sold and sales amount respectively. As a result, GFA sold and sales amount in 2Q23 dropped 7% and inched up 1% yoy respectively. The present real estate market is under substantial adjustment pressure, as evidenced by declining prices of new and existing homes in various regions, coupled with a noticeable plunge in investment demand.
- Lacklustre July sentiment to sustain into 3Q23.** According to "2023 China Real Estate Enterprises Sales Performance Rankings for January to July" released by China Index Academy, the monthly sales of the top 100 real estate companies slumped by 34.1% yoy and 33.8% mom in July. The data shows that from Jan 23 to Jul 23, the total sales of the top 100 real estate companies declined 4.6% yoy and 4.7% mom to Rmb3,994.4b. The widespread cooling trend suggests that many cities are grappling with continued sluggish property transactions stemming from weak purchasing power, hindered demand for home upgrades and insufficient market confidence.
- Policy relaxation to stimulate recovery in 2H23.** The recent Political Bureau meeting on 24 Jul 23 has injected confidence in the property market by outlining specific measures. The measures include increasing the construction and supply of affordable housing, promoting urban village transformation and "dual-use" public infrastructure construction, and activating the transformation of idle properties. Furthermore, the Ministry of Housing and Urban-Rural Development (MOHURD) has introduced specific measures to support rigid demand transformation following the shift in attitude towards real estate following the Political Bureau meeting. The three major supportive policies for rigid demand transformation involve: a) reducing downpayments and mortgage rates for first-home buyers, b) providing tax and fee reductions for home upgrades, and c) implementing a "recognizing housing, not loans" policy. These policies are expected to boost housing demand, facilitate property transactions and strengthen sales in core cities.

## EARNINGS REVISION/RISK

- We trim our full-year 2023 revenue marginally by 1%, representing revenue growth of 31% yoy, in view of the ongoing uncertainty on property market recovery.** We revised our adjusted net profit by 1.3%/-1% in 2Q23F/2023F.
- Key risks:** a) Real estate sector cyclicality and lower growth in brokerage penetration in China's housing market, b) intensified competition, c) strong pressure and strict regulations on brokerage commission rates, and d) poor execution of new initiatives.

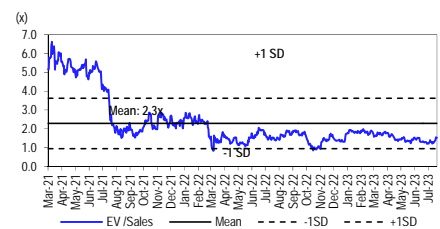
## VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of HK\$63.00 (US\$22.00),** using unchanged 22x PE against average earnings of 2023/24, implying a 1.6x 2023 EV/sales. Beike is trading at 1x 12-month forward EV/Sales, 0.6SD below its historical mean of 2.4x. Despite the challenging environment driven by near-term weakness, we opine the enhanced "One Body, Three Wings" strategy will create emerging opportunities for the company.

## SHARE PRICE CATALYST

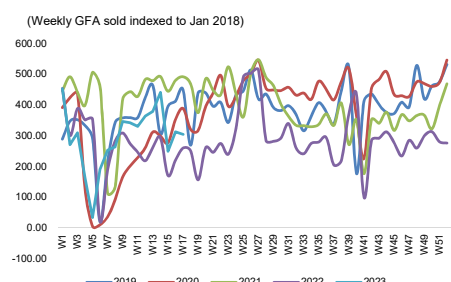
- a) Higher monetisation rates, b) less competition, c) positive policies issued by the government to simulate housing transactions and a better funding environment for property developers, and d) household income recovery after China's COVID-19 reopening.**

## EV/SALES BAND



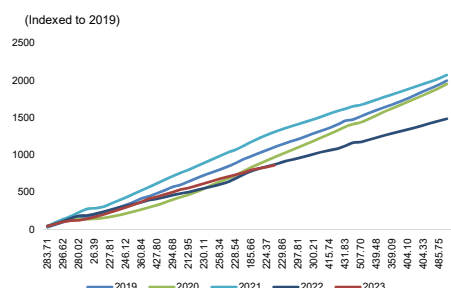
Source: Bloomberg, UOB Kay Hian

## AVERAGE WEEKLY VOLUME OF EXISTING PROPERTY SALES IN 30 CITIES



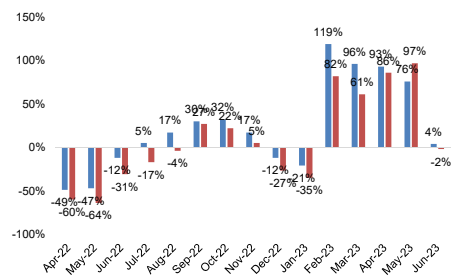
Source: WIND, UOB Kay Hian

## YTD EXISTING HOME VOLUME SOLD VS. 2019-22 IN 30 CITIES



Source: WIND, UOB Kay Hian

## TIER-1 CITIES EXISTING HOME SALES VOLUME (YOY %)



Source: WIND, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	60,669	79,370	88,039	95,876
EBITDA	597	9,815	10,090	12,174
Deprec. & amort.	1,540	1,719	1,888	2,043
EBIT	(943)	8,095	8,202	10,131
Total other non-operating income	1,441	1,893	1,325	1,988
Associate contributions	(1,060)	6	6	6
Net interest income/(expense)	478	494	545	607
<b>Pre-tax profit</b>	<b>(84)</b>	<b>10,488</b>	<b>10,078</b>	<b>12,732</b>
Tax	(1,690)	(3,021)	(2,965)	(3,623)
Minorities	11	11	11	11
<b>Net profit</b>	<b>(1,762)</b>	<b>7,479</b>	<b>7,124</b>	<b>9,120</b>
Net profit (adj.)	2,478	10,432	10,290	12,438

**BALANCE SHEET**

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	2,037	2,222	2,281	2,255
Other LT assets	36,886	37,037	38,122	39,335
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	25,594	26,525	38,102	49,817
Other current assets	44,831	45,216	44,479	45,362
<b>Total assets</b>	<b>109,347</b>	<b>111,001</b>	<b>122,984</b>	<b>136,770</b>
ST debt	619	619	619	619
Other current liabilities	32,722	29,416	31,720	33,680
Other LT liabilities	6,952	6,952	6,952	6,952
Shareholders' equity	68,920	79,547	89,237	101,074
Minority interest	134	123	112	100
<b>Total liabilities &amp; equity</b>	<b>109,347</b>	<b>111,001</b>	<b>122,984</b>	<b>136,770</b>

**CASH FLOW**

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>6,961</b>	<b>6,855</b>	<b>13,449</b>	<b>13,658</b>
Pre-tax profit	(84)	10,488	10,078	12,732
Tax	(1,690)	(3,021)	(2,965)	(3,623)
Deprec. & amort.	1,540	1,719	1,888	2,043
Working capital changes	1,905	(1,275)	(405)	(1,807)
Other operating cashflows	5,288	(1,057)	4,853	4,313
<b>Investing</b>	<b>(11,900)</b>	<b>(1,786)</b>	<b>(1,872)</b>	<b>(1,943)</b>
Capex (growth)	1,442	1,589	1,725	1,725
Others	(13,342)	(3,375)	(3,597)	(3,668)
<b>Financing</b>	<b>(194)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Dividend payments	0	0	0	0
Issue of shares	3,477	2,555	2,706	(89,835)
Loan repayment	0	0	0	0
Others/interest paid	(3,671)	(2,555)	(2,706)	89,835
<b>Net cash inflow (outflow)</b>	<b>(5,134)</b>	<b>5,069</b>	<b>11,577</b>	<b>11,715</b>
Beginning cash & cash equivalent	26,590	21,456	26,525	38,102
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>25,594</b>	<b>26,525</b>	<b>38,102</b>	<b>49,817</b>

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	1.0	12.3	11.2	12.2
Pre-tax margin	(0.1)	13.1	11.2	12.7
Net margin	(2.9)	9.4	7.9	9.1
ROA	n.a.	6.8	6.1	7.0
ROE	n.a.	10.1	8.4	9.6
<b>Growth</b>				
Turnover	(24.9)	31.5	12.8	10.9
EBITDA	n.a.	1,543.9	2.8	20.7
Pre-tax profit	(108.4)	n.a.	(3.9)	26.3
Net profit	n.a.	n.a.	(4.7)	28.0
Net profit (adj.)	15.1	321.0	(1.4)	20.9
EPS	14.7	312.6	(2.3)	19.7
<b>Leverage</b>				
Debt to total capital	0.9	0.8	0.7	0.6
Debt to equity	0.9	0.8	0.7	0.6
Net debt/(cash) to equity	(36.2)	(32.6)	(42.0)	(48.7)

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W